LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 8141 **DATE PREPARED:** Jan 24, 1999
BILL NUMBER: HB 1984 **BILL AMENDED:**

SUBJECT: Enterprise Zones.

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FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill creates new economic development tax incentives:

- *Credit for certain qualified purchases:* This bill provides a credit against state sales and use tax liability for certain purchases made:

  (1) by or on behalf of a taxpayer that owns real property in an Enterprise Zone (EZ);
  (2) from a person whose place of business is within an enterprise zone or a city in which an EZ is located; and
  (3) for the purpose of the redevelopment or rehabilitation of a business or residence in an EZ.

- *Enterprise Zone incremental income deduction:* This bill also provides that an individual is entitled to an adjusted gross income tax deduction equal to the amount of qualified increased enterprise zone adjusted gross income received by the individual during the taxable year (including the individual's distributive share of a pass through entity's qualified increased enterprise zone adjusted gross income).

- *Enterprise Zone job creation credit*: The bill also provides a credit against state tax liability for jobs created at locations within an enterprise zone.

Effective Date: July 1, 1999; January 1, 2000.

Explanation of State Expenditures: The Department of Revenue must adopt rules and procedures to implement the above. The Department should be able to absorb any additional expenses resulting from the above given its current budget.

Explanation of State Revenues: The bill establishes three new tax credits:

Credit for certain qualified purchases: This bill provides a credit against state sales and use tax liability for certain purchases made by, on behalf of, or from a taxpayer that owns real property or a business within an enterprise zone. This provision will increase credits against the state sales and use tax liabilities which will reduce revenue generated by the taxes. The specific impact is indeterminable and dependent on action taken by eligible taxpayers. Of the total generated, 59.2% is deposited into the state General Fund, 40% is deposited into the property Tax Replacement Fund, 0.76% is deposited into the Public Mass Transportation Fund; and 0.04% is deposited into the Industrial Rail Service Loan Fund.

There are currently 21 Enterprise Zones (EZs) which include approximately 1,701 businesses. After January 1, 1988, the EZ Board may add no more than two new zones each year and may not add any new zones after December 31, 2003. There may be no more than one enterprise zone in any municipality. In CY 1997 total inventory tax credits taken statewide equaled $37,287,868. (Inventory held within an EZ is exempt from property taxes.) The Indiana Department of Commerce (IDOC) was appropriated $181,125 to oversee the EZ program in FY 1998.

Enterprise Zone incremental income deduction: This bill also provides an adjusted gross income tax deduction equal to the amount of qualified increased enterprise zone adjusted gross income received by the individual during the taxable year (including the individual's distributive share of a pass through entity's qualified increased enterprise zone adjusted gross income). This deduction would result in a decrease in the amount of revenue generated by the adjusted gross income tax which is deposited in the state General Fund. The specific impact is indeterminable and will depend on the number of individuals who claim the deduction and the qualified increased enterprise zone adjusted gross income received by the individual during the taxable year.

Enterprise Zone job creation credit: The bill also provides a credit against state tax liability for jobs created at locations within an enterprise zone. For purposes of the credit, state tax liability includes gross income taxes, adjusted gross income taxes, supplemental corporate net income taxes, bank taxes, savings and loan association taxes, financial institutions taxes, and insurance premiums taxes. This provision could decrease revenues collected from the above taxes and deposited into the following funds: Gross income, supplemental corporate net, and insurance taxes are deposited into the state General Fund; Adjusted gross income is deposited into the state General Fund and the Property Tax Replacement Fund; A portion of the financial institutions tax is distributed to local units with the remainder deposited in the state General Fund. The savings and loan association tax and the bank tax have been replaced by the financial institutions tax.

Explanation of Local Expenditures:

Explanation of Local Revenues: A portion of the financial institutions tax is distributed to local units. However, the revenue is guaranteed and should not be affected by the credit against a taxpayer's liability.

State Agencies Affected: Department of Revenue, EZ Board, Department of Commerce.

Local Agencies Affected: Urban Enterprise Associations.

Information Sources: Leslie Richardson, Director, Division of Research, DOC, (317) 232-8962.